Attachment 1

Michael C. Schlachter, CFA
Managing Director

November 13, 2007

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: International Fixed Income Manager Contract Renewal Recommendation[1]

Dear Russell,

You requested Wilshire's opinion with respect to Staff's recommendation pertaining to the annual review and renewal of the contracts of the international fixed income managers. Wilshire concurs with Staff's recommendations, and our comments regarding all seven managers are below.

Discussion

During the last ten months of the 2007 fiscal year (the contract review period shifted in the last fiscal year), the CalPERS International Fixed Income manager program underperformed its benchmark by 0.15%. Since inception, the international fixed income program has added an average of 0.84% of outperformance per year, and 0.07% per year since September 2000, but due to a significant restructuring of this program, prior period performance is not directly comparable to the portfolio of managers as it exists today. We believe that the longer term results are difficult to compare to the current program for three reasons: First, four of the seven current managers were added in 2007. Second, two managers resigned from this portfolio. Third, the managers were granted increased leverage and shorting freedom that changed some elements of the risk and return potential in the portfolio in the Spring of 2007. As a result, although we believe that the long-term positive results from this portfolio are important, we believe that this portfolio should be evaluated going forward from the date of the last of these major changes.

We note that all three of the longer term (legacy) managers underperformed during the ten-month review period, as did two of the four new managers. However, we recommend renewing all seven of these contracts to provide Staff with sufficient time to

[1] Wilshire's Code of Conduct requires us to disclose which of the above firms are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for the licensing of analytical software used in investment management. Wilshire's consulting division has no business relationship with them. This disclosure has been delivered under separate cover and is included as an attachment to this agenda item.

determine if further resignations are required and to allow for additional time to see if the new leverage and shorting flexibility provides for greater opportunity to add value. The Spring-Fed Pool structure allows Staff the ability to terminate or replace managers at any time, and the renewal of these contracts does not necessarily require all managers to be retained for an additional year.

AllianceBernstein

Alliance was one of the new managers hired under the RFP last year, and was first funded in February 2007. Since inception, the manager has added 0.49%. Alliance relies heavily on fundamental credit research, which obviously served the manager well over the summer as credit concerns dominated the marketplace.

Baring Asset Management

Baring is one of the "legacy" managers, and was first funded in October 1989. Since inception, the manager has added 1.32% of annual outperformance on average, but has underperformed since the last program restructuring in September 2000 by 0.19% per year and also underperformed over the last ten months by 0.99%. Baring's investment process provides significant strategy diversification in the portfolio, as they base most of their investment decisions not on bottom-up issue selection, but rather on macro-economic projects of currency, country, and rate movements. The success or failure of this investment process should be uncorrelated with some of the newer managers, who rely much more heavily on sector and issue selection.

Brandywine Global

Brandywine was funded in the recent batch of additions to the Spring Fed Pool, and received its first assets from CalPERS in February 2007. Since inception, Brandywine has had great success, outperforming its benchmark by 1.19%. Brandywine manages a more concentrated portfolio than the other managers in the program, and focuses much of their portfolio management efforts on currency and yield. Of all the managers in the program, we believe that this is the most "active" manager, and should have the greatest potential for outperformance or underperformance.

Mondrian

Mondrian has underperformed since its inception date of March 2007 by 0.43%. The manager employs a defensive, value, and quantitative investment style that should outperform over the long term, but may underperform when its style is out of favor. In addition, the manager relies on a Purchasing Power Parity construct to determine proper currency valuation, and this methodology tends to work over very long-term periods but can drastically underperform over the short run. Currency managers who rely on PPP have underperformed badly over the past few months as the dollar has continued to fall, and so we are not surprised to see Mondrian underperform, as well. As these models become successful again, we expect this manager to add value.

Rogge Global Partners

Rogge was funded at the time of the last program restructuring, in September 2000. The manager underperformed by 0.03% over the last ten months, but has added an average of 0.15% per year since inception. This manager's process is based on a macroeconomic study of each country's major economic factors that determine interest rates (i.e., debt, growth, etc.) The manager then takes fairly concentrated positions in the countries with the highest expected future value. Individual issue selection takes a back seat to country and currency decisions in this investment process.

Pacific Investment Management Company (PIMCO)

PIMCO has managed assets for CalPERS since April 2007, and has underperformed by 0.45% since inception. PIMCO uses a combination of some of the same macro factors discussed above (i.e., economic growth, inflation outlook, currency valuations) and traditional security and sector selection, although the firm has tended to lean more heavily on its macroeconomic forecasts over time. PIMCO's underperformance resulted from a prediction that central banks, especially in the US, would begin to cut interest rates rapidly in response to the looming sub-prime collapse, which had not yet come to pass as of the end of June 2007. Most PIMCO portfolios have subsequently performed very well as this more risk-controlled approach was very successful as the markets reacted to increasingly bad news in July and August.

Western Asset Management

Western was hired in the previous Spring Fed Pool refresh, and was first funded in September 2000. Since inception, the manager has outperformed the benchmark by 0.02%, but underperformed over the past ten months by 0.84%. Western's process is somewhat similar to PIMCO's, employing a variety of top-down macro-economic factors, but tends to be more focused on individual issue and sector selection, especially in credit (corporate) securities. Western also tends to take slightly less duration and yield curve exposure than PIMCO, leading to a good amount of diversification between these two managers.

Conclusion

Through the on-going activities of both CalPERS' consulting team and Wilshire's Manager Research Group, we closely monitor the performance and investment processes of all of CalPERS' managers. At this time, Wilshire concurs with Staff's recommendation to renew the contracts for all of the international fixed income managers, as CalPERS still has the right to terminate any of these managers with 30 days notice.

Sincerely,